



ALLIANCE DEFENDING
FREEDOM

FOR FAITH. FOR JUSTICE.

**ALLIANCE DEFENDING
FREEDOM AND AFFILIATES**

Consolidated Financial Statements
With Independent Auditors Report

June 30, 2022 and 2021

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Alliance Defending Freedom and Affiliates
Scottsdale, Arizona

Opinion

We have audited the accompanying consolidated financial statements of Alliance Defending Freedom and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alliance Defending Freedom and Affiliates as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of Alliance Defending Freedom and Affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Alliance Defending Freedom and Affiliates' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Board of Directors
Alliance Defending Freedom and Affiliates
Scottsdale, Arizona

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Alliance Defending Freedom and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Alliance Defending Freedom and Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Capin Crouse LLP

Colorado Springs, CO
October 27, 2022

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Financial Position

	June 30,	
	2022	2021
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 8,006,507	\$ 7,509,151
Restricted cash	12,478,277	12,049,669
Pledges receivable—current portion	1,028,527	-
Prepaid expenses and other assets	2,503,301	1,777,540
	24,016,612	21,336,360
Pledges receivable—long-term portion	1,601,257	-
Deposits	271,009	254,539
Investments	29,643,718	28,074,846
Property and equipment—net	34,375,538	33,831,002
	\$ 89,908,134	\$ 83,496,747
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 3,486,333	\$ 3,012,699
Accrued expenses	4,772,928	3,352,344
Deferred membership dues	1,204,380	848,902
Note payable—current portion	-	524,170
	9,463,641	7,738,115
Accrued rent liability	809,256	929,938
Note payable—long-term portion	-	12,600,830
Total liabilities	10,272,897	21,268,883
Net assets:		
Net assets without donor restrictions:		
Operating	61,244,549	47,477,491
Board designations for contractual obligations and grants	3,669,380	3,240,772
Board designated operating reserve	8,808,897	8,808,897
	73,722,826	59,527,160
Net assets with donor restrictions	5,912,411	2,700,704
Total net assets	79,635,237	62,227,864
Total Liabilities and Net Assets	\$ 89,908,134	\$ 83,496,747

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Activities

	Year Ended June 30,					
	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions	\$ 87,252,975	\$ 10,876,197	\$ 98,129,172	\$ 70,240,006	\$ 6,334,630	\$ 76,574,636
Membership revenue	2,261,762	-	2,261,762	1,639,151	-	1,639,151
Court awarded fees	2,040,600	-	2,040,600	335,261	-	335,261
Contributed services	1,554,875	-	1,554,875	2,157,574	-	2,157,574
Dividend and interest income	666,423	-	666,423	445,351	-	445,351
Realized and unrealized gain (loss) on investments—net	(3,697,501)	(280,191)	(3,977,692)	3,265,977	483,207	3,749,184
Gain (loss) on disposal of property and equipment	4,377	-	4,377	(4,262)	-	(4,262)
Other income	1,066,710	-	1,066,710	197,950	-	197,950
Total Support and Revenue	91,150,221	10,596,006	101,746,227	78,277,008	6,817,837	85,094,845
NET ASSETS RELEASED:						
Purpose restrictions	7,384,299	(7,384,299)	-	8,098,767	(8,098,767)	-
EXPENSES:						
Program services:						
Grants	2,516,929	-	2,516,929	2,279,794	-	2,279,794
Legal advocacy	23,400,598	-	23,400,598	18,841,953	-	18,841,953
Strategic relations and training	21,064,744	-	21,064,744	15,859,063	-	15,859,063
Public education	20,287,295	-	20,287,295	16,651,759	-	16,651,759
	67,269,566	-	67,269,566	53,632,569	-	53,632,569
Supporting activities:						
General and administrative	7,842,247	-	7,842,247	6,628,928	-	6,628,928
Fundraising	9,227,041	-	9,227,041	8,939,822	-	8,939,822
	17,069,288	-	17,069,288	15,568,750	-	15,568,750
Total Expenses	84,338,854	-	84,338,854	69,201,319	-	69,201,319
Change in Net Assets	14,195,666	3,211,707	17,407,373	17,174,456	(1,280,930)	15,893,526
Net Assets, Beginning of Year	59,527,160	2,700,704	62,227,864	42,352,704	3,981,634	46,334,338
Net Assets, End of Year	\$ 73,722,826	\$ 5,912,411	\$ 79,635,237	\$ 59,527,160	\$ 2,700,704	\$ 62,227,864

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services				Supporting Activities				Total
	Grants	Legal Advocacy	Strategic Relations and Training	Public Education	Total Program Services	General and Administrative	Fundraising	Total Supporting Activities	
Salaries and benefits	\$ 557,547	\$ 16,487,578	\$ 10,030,834	\$ 9,580,024	\$ 36,655,983	\$ 5,031,512	\$ 5,240,958	\$ 10,272,470	\$ 46,928,453
Direct marketing	13,646	377,258	404,376	3,829,074	4,624,354	347,433	1,360,419	1,707,852	6,332,206
Travel	27,835	961,628	2,569,247	563,294	4,122,004	136,849	388,433	525,282	4,647,286
Office equipment	105,560	821,339	995,177	694,567	2,616,643	532,105	346,100	878,205	3,494,848
Occupancy	237,089	735,987	727,881	730,296	2,431,253	319,799	370,192	689,991	3,121,244
Audio visual and media	2,634	209,666	1,146,354	1,559,776	2,918,430	15,567	128,104	143,671	3,062,101
Educational seminars	5,202	226,755	2,242,916	139,102	2,613,975	19,999	162,114	182,113	2,796,088
Depreciation and amortization	178,831	578,494	574,389	583,003	1,914,717	269,498	341,370	610,868	2,525,585
Public education materials	9,053	311,447	340,207	1,219,144	1,879,851	112,103	376,905	489,008	2,368,859
Professional services	10,076	718,756	229,564	205,656	1,164,052	288,794	104,462	393,256	1,557,308
Direct legal services	-	1,544,898	-	-	1,544,898	-	-	-	1,544,898
Blackstone scholarships	-	26,000	1,466,400	-	1,492,400	-	-	-	1,492,400
Shipping and postage	8,288	72,645	80,943	909,274	1,071,150	99,232	232,409	331,641	1,402,791
Grant disbursements	1,298,186	-	-	-	1,298,186	-	-	-	1,298,186
Financial services	16,143	60,094	46,390	48,818	171,445	450,850	26,772	477,622	649,067
Communications	24,268	115,191	95,723	109,338	344,520	50,455	55,779	106,234	450,754
Insurance	13,360	83,143	52,936	42,697	192,136	147,396	56,182	203,578	395,714
Office supplies	9,211	69,719	61,407	73,232	213,569	20,655	36,842	57,497	271,066
	<u>\$ 2,516,929</u>	<u>\$ 23,400,598</u>	<u>\$ 21,064,744</u>	<u>\$ 20,287,295</u>	<u>\$ 67,269,566</u>	<u>\$ 7,842,247</u>	<u>\$ 9,227,041</u>	<u>\$ 17,069,288</u>	<u>\$ 84,338,854</u>

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services					Supporting Activities			Total
	Grants	Legal Advocacy	Strategic Relations and Training	Public Education	Total Program Services	General and Administrative	Fundraising	Total Supporting Activities	
Salaries and benefits	\$ 475,186	\$ 12,917,763	\$ 8,696,848	\$ 7,844,548	\$ 29,934,345	\$ 3,815,981	\$ 4,956,993	\$ 8,772,974	\$ 38,707,319
Direct marketing	10,372	224,038	299,501	2,886,064	3,419,975	243,341	1,470,761	1,714,102	5,134,077
Office equipment	159,309	544,395	730,183	562,304	1,996,191	767,252	403,487	1,170,739	3,166,930
Professional services	16,669	818,420	351,577	1,097,420	2,284,086	253,346	114,891	368,237	2,652,323
Travel	8,633	376,742	1,646,111	306,709	2,338,195	36,984	272,241	309,225	2,647,420
Occupancy	190,778	553,747	546,897	547,107	1,838,529	382,653	331,409	714,062	2,552,591
Depreciation and amortization	152,440	519,601	554,711	676,440	1,903,192	309,081	328,904	637,985	2,541,177
Public education materials	14,209	290,275	304,609	1,127,435	1,736,528	62,949	383,987	446,936	2,183,464
Direct legal services	-	2,157,018	-	-	2,157,018	-	-	-	2,157,018
Educational seminars	813	62,401	1,180,404	53,814	1,297,432	99,159	87,543	186,702	1,484,134
Audio visual and med	226	160,623	229,261	676,560	1,066,670	7,860	224,052	231,912	1,298,582
Grant disbursements	1,207,477	-	-	-	1,207,477	-	-	-	1,207,477
Blackstone scholarshi	-	-	1,135,000	-	1,135,000	-	-	-	1,135,000
Shipping and postage	5,733	42,166	44,984	722,748	815,631	78,126	226,391	304,517	1,120,148
Financial services	481	3,384	3,108	10,972	17,945	353,894	8,249	362,143	380,088
Communications	21,115	61,909	63,939	67,184	214,147	42,906	46,971	89,877	304,024
Insurance	6,506	59,124	31,443	20,208	117,281	126,964	43,065	170,029	287,310
Office supplies	9,847	50,347	40,487	52,246	152,927	48,432	40,878	89,310	242,237
	<u>\$ 2,279,794</u>	<u>\$ 18,841,953</u>	<u>\$ 15,859,063</u>	<u>\$ 16,651,759</u>	<u>\$ 53,632,569</u>	<u>\$ 6,628,928</u>	<u>\$ 8,939,822</u>	<u>\$ 15,568,750</u>	<u>\$ 69,201,319</u>

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from donors	\$ 94,757,929	\$ 76,590,221
Cash received from membership dues	2,617,240	1,986,826
Other cash received	3,340,218	1,185,749
Cash paid to or on behalf of employees	(45,443,667)	(38,200,639)
Cash paid to vendors	(34,259,910)	(25,470,767)
Net Cash Provided by Operating Activities	21,011,810	16,091,390
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,069,439)	(19,441,681)
Proceeds on sale of property and equipment	106,152	-
Proceeds on sale of investments	19,401,318	11,047,711
Purchase of investments	(23,398,877)	(8,201,521)
Net Cash Used by Investing Activities	(6,960,846)	(16,595,491)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	(13,125,000)	13,125,000
Net Cash Provided by Financing Activities	(13,125,000)	13,125,000
Change in Cash, Cash Equivalents, and Restricted Cash	925,964	12,620,899
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	19,558,820	6,937,921
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 20,484,784	\$ 19,558,820
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH CONSIST OF:		
Cash and cash equivalents	\$ 8,006,507	\$ 7,509,151
Restricted cash	12,478,277	12,049,669
	\$ 20,484,784	\$ 19,558,820

See notes to consolidated financial statements

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

1. NATURE OF ORGANIZATIONS:

Alliance Defending Freedom (ADF) was formed in 1994. It is an alliance-building legal organization that seeks to keep doors open for the Gospel by advocating for:

- The right of all people to freely live out their faith.
- The sanctity of human life from conception until natural death.
- The freedom of speech for all.
- The fundamental right of parents to direct the upbringing, care, and education for their children.
- The sanctity of marriage and the truth that God has created us male and female.

ADF accomplishes this mission by advocating in courtrooms and in the public square, training lawyers of today and tomorrow, and funding allies and critical cases-in the United States and around the globe.

These consolidated statements include the activities of ADF, ADF Foundation, 15100, LLC, 15100 Solar, LLC, Alliance Defending Freedom India Trust, ADF International Belgium, ADF International Austria GmbH, ADF International Switzerland, ADF International UK, ADF International France, and ADF Deutschland. ADF Foundation was incorporated in 2005 as a separate, independent corporation. 15100, LLC was organized in 2007 to own and operate a commercial real estate property for the benefit of ADF. 15100, LLC is a single member LLC whose member is ADF. 15100 Solar, LLC was organized in 2012 to own and operate a solar energy project in connection with 15100, LLC. 15100 Solar, LLC is a single member LLC whose member is 15100, LLC. Alliance Defending Freedom India Trust, ADF International Belgium, ADF International Austria GmbH, ADF International Switzerland, ADF International UK, ADF International France, and ADF Deutschland are subject to appropriate tax filings in their jurisdiction. These entities are collectively referred to as Alliance Defending Freedom and Affiliates (ADF and Affiliates) in these consolidated financial statements.

ADF is incorporated in the Commonwealth of Virginia. ADF Foundation is incorporated in the state of Arizona. ADF and ADF Foundation operate as nonprofit religious organizations under Section 501(c)(3) of the Internal Revenue Code (the Code) and are publicly supported organizations under Sections 170(b)(1) and 509(a) of the Code. ADF and ADF Foundation are not considered to be private foundations under Section 509(a) of the Code. ADF and Affiliates' primary source of support and revenue is contributions.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of ADF and Affiliates have been prepared on the accrual basis of accounting. ADF and Affiliates uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

PRINCIPLES OF CONSOLIDATION

Due to a combination of board control and economic control, the entities listed in Note 1 are controlled entities of ADF for the purposes of these consolidated statements. The consolidated financial statements of ADF and Affiliates therefore include the financial resources and activities of these entities. All significant intercompany balances and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held in checking accounts and interest-bearing money market accounts. As of June 30, 2022 and 2021, ADF and Affiliates has cash and cash equivalents on deposit with financial institutions that exceed the federally insured (FDIC) balance by approximately \$19,500,000 and \$18,800,000, respectively. ADF and Affiliates has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

RESTRICTED CASH

Restricted cash consists of cash and cash equivalents restricted by the board for operating reserves and liquidated damages for future contracted events.

PLEDGE RECEIVABLE

Pledge receivable consists of an unconditional promise to give and is recognized as assets and support in the period made. Unconditional promises that are expected to be received within one year are recorded at their net realizable value based upon management's estimate of the pledges being collectible. Unconditional promises that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows.

PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets mainly consist of deposits for program event space and travel expenses for events taking place after June 30, 2022 and 2021, court awarded fees receivables, software licenses, and insurance payments.

DEPOSITS

Deposits consist of security deposits paid on office rental space.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS

Investments consist of equity securities, mutual funds, exchange traded funds, and certificates of deposit with an original maturity greater than ninety days. Equity securities, mutual funds, and exchange traded funds are stated at fair value based on quoted market prices. Certificates of deposit are stated at original cost plus accrued interest. Donated securities are recorded at fair value at the date of donation and thereafter carried in conformity with the stated policy. Earnings are included within interest income and realized and unrealized gain (loss) on investments on the consolidated statements of activities.

All assets held for the endowment are recorded at fair value with unrealized gains and losses reported in the statements of activities in the year in which they occur. Donated investments are recorded at fair value at the date of donation. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires ADF and Affiliates to retain as a fund of perpetual duration.

ADF Foundation exists to financially support ADF in achieving its objectives. The long-term success of the ADF Foundation's financial support to ADF is dependent in part upon the performance of ADF Foundation's funds, including endowment funds.

ADF Foundation defines an endowment as a fund or part of such a fund that, under the terms of a donor's gift instrument, is not wholly expendable by ADF Foundation on a current basis. This does not include assets that ADF Foundation designates as a fund for its own use, or assets held by ADF Foundation that ADF designates as a fund for its own use.

The board of directors of ADF Foundation has interpreted Arizona's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Arizona's Management of Charitable Funds Act (the Act), as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ADF Foundation classifies as net assets with donor restrictions in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetuity is classified as restricted by purpose and time until those amounts are appropriated for expenditure by ADF Foundation in a manner consistent with the standard of prudence prescribed by the Act.

ADF Foundation has adopted a spending policy as permitted by the Act and UPMIFA, and all endowment funds are subject to such policy. ADF Foundation complies with its policy and the Act, as it may be amended from time to time, in all decisions relating to the expenditure or retention of the endowment funds. The Act permits ADF Foundation to appropriate for expenditure or accumulate so much of any endowment as ADF Foundation determines is prudent for the uses, benefits, purposes, and duration for which the applicable endowment was established, subject to the intent of donors expressed in the applicable gift instrument.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost if purchased and includes improvements that significantly add to utility or extend useful lives. Costs of maintenance and repairs are charged to expense as incurred. Depreciation and amortization is recorded using the straight-line method over the estimated useful lives. Depreciation and amortization ranges from 10 to 39 years for buildings and improvements, and from 3 to 10 years for furniture and equipment. When depreciable assets are disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any gain or loss is included in support and revenue for the period. Purchases in excess of \$3,000 are capitalized, with lesser amounts expensed when incurred.

ACCRUED RENT LIABILITY

Accrued rent liability represents amounts owed for rent on office space. Monthly rents per the contract increase over the thirteen year period, but the rent expense has been recorded evenly over the period in accordance with generally accepted accounting principles.

NET ASSETS

The net assets of ADF and Affiliates are reported in the following categories:

Net assets without donor restrictions consist of resources that are available for current operations, and those resources invested in subsidiaries and property and equipment.

Net assets with donor restrictions include donor-restricted contributions for specified exempt purposes and unappropriated endowment income. These include donor restrictions requiring that net assets be held in perpetuity with only amounts appropriated pursuant to the spending policy available for distribution or otherwise as provided by the gift instrument.

SUPPORT AND REVENUE

Contributions are recorded when made, which may be when cash and other assets are received or unconditionally promised. Gifts of cash and other assets are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated amounts. Upon satisfaction of the restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. All contributions are considered to be without donor restrictions unless specifically restricted by the donor or grantor. Contributions without donor restrictions from the general public are primarily used to fund case grants, legal projects, and program costs.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, continued

Contributed services are primarily comprised of services donated to ADF and Affiliates that they would have otherwise had to pay for and are recognized when the service is rendered. Through the annual ADF Summit, Blackstone Legal Fellowship, and other programs, ADF and Affiliates continue to build an alliance of volunteer attorneys and future attorneys who can work within America's legal system and international bodies of law. They strive to protect life from conception to natural death; to preserve marriage and the family as God ordained it; and to protect and defend the ability to publicly live and express one's faith. Contributed services are recognized as in-kind support at their estimated fair value which are reported using current rates for similar services in their principal market. All donated services were utilized by the ADF and Affiliates' programs and supporting services.

Membership revenue consists primarily of annual fees paid by allied churches and ministries. These amounts are recorded when earned, which is ratably in the reporting period in which services are delivered. Deferred membership dues are recorded for the portion of the membership that has not yet occurred, as of June 30, 2022 and 2021. All other income is recorded when earned.

EXPENSES

Expenses are reported when costs are incurred in accordance with the accrual basis of accounting.

ADF (including its affiliates) offers top-notch legal advocacy and expertise through its 90 attorneys based in Arizona, Georgia, Virginia, Washington D.C., New York City, and around the world. It has had remarkable success—winning nearly 80% of its cases and having played an important role in 72 United States Supreme Court victories. In fact, ADF has directly achieved 13 victories at the U.S. Supreme Court since 2011. But direct litigation is not the only way ADF achieves courtroom success.

ADF also engages and equips a growing network of over 4,400 network attorneys to help defend freedom's future. It does so in part by providing grants to fund outside litigation that furthers ADF's strategic objectives, as defined by ADF's U.S. and International advocacy teams, and consistent with its mission described above. These grant funds cover litigation expenses such as expert witness fees, research costs, scholarship, public advocacy efforts, and amicus support, which is critical to ensuring the best possibility of success.

To receive a grant, ADF allies submit applications for funding, which are then reviewed by a council of experienced attorneys. This council meets monthly to review applications, collaborate about how to strategically advance ADF's mission, and award grants that best align with that mission. Once a grant is awarded, ADF keeps the funds until the recipient provides proof of work or expense in accordance with the terms of the grant. Disbursements are recorded as an expense when paid.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

EXPENSES, continued

ADF also engages in significant public advocacy. Because courtroom decisions can often reflect cultural values, ADF seeks to persuade people on the importance of protecting religious freedom, free speech, the sanctity of life, parental rights, and marriage and family-in the United States and around the globe. And ADF does this through print media, mailing, email alerts, websites, blog posts, op-eds, social media, webinars, and public media appearances and events.

Finally, ADF also provides world-class legal training. Because ADF seeks to transform law and culture so that true freedom may flourish, it provides training to Christian attorneys, law students, and college students interested in pursuing a career in law, public policy, government, business, and other culture-shaping fields. ADF sees this investment as critical to securing freedom's future.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities have been summarized on a functional basis in the consolidated statements of activities and consolidated statements of functional expenses. Accordingly, certain costs, such as salaries, have been allocated among the program services and supporting activities benefited. All expenses are reported when costs are incurred. See the expenses section above for detailed program descriptions.

The consolidated financial statements present various categories of expenses that are attributable to more than one program or supporting function. ADF and Affiliates performs its allocation of such expenses at the individual support department level based on time and effort expended on behalf of the supported program activities, space occupied or shared services utilized by the supported program activities, and purpose and content of various print and electronic communications. More than 50% of ADF and Affiliates' total expenses are incurred in departments whose activities are classified as being 100% related to program service functions, including those directly engaged in litigation, grants, training and education programs, strategic relations, and legal advocacy.

ADVERTISING

ADF and Affiliates uses advertising to promote its programs among the audiences it serves and to raise funds. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2022 and 2021, was \$1,591,420 and \$1,675,282, respectively, and are included in the public education materials lines of both of the consolidated statements of functional expenses.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ADOPTION OF ACCOUNTING PRONOUNCEMENT

In fiscal year 2022, ADF and Affiliates adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

3. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects ADF and Affiliates' financial assets reduced by amounts not available for general use within one year:

	June 30,	
	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 8,006,507	\$ 7,509,151
Restricted cash	12,478,277	12,049,669
Pledges receivable	2,629,784	-
Other receivables	106,460	62,075
Investments	29,643,718	28,074,846
Financial assets, at year-end	52,864,746	47,695,741
Less those unavailable for general expenditure within one year, due to:		
Pledges receivable not expected to be received within one year	(1,601,257)	-
Donor imposed restrictions:		
Donor restricted as to purpose and use	(157,000)	(120,000)
Donor restricted endowments	(1,511,072)	(1,851,694)
Board designations:		
Funds set aside for operating reserves	(8,808,897)	(8,808,897)
Funds set aside for liquidated damages related to contracted future events	(809,105)	(1,382,378)
	(12,887,331)	(12,162,969)
Financial assets available within one year to meet cash needs for general expenditures	\$ 39,977,415	\$ 35,532,772

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

3. LIQUIDITY AND FUNDS AVAILABLE, continued:

ADF and Affiliates has \$52,864,746 of financial assets as of June 30, 2022, consisting of cash, cash equivalents, and restricted cash of \$20,484,784, pledges receivable of \$2,629,784, other receivables of \$106,460, and short-term investments of \$29,643,718. ADF and Affiliates had \$47,695,741 of financial assets as of June 30, 2021, consisting of cash, cash equivalents, and restricted cash of \$19,558,820, other receivables of \$62,075, and short-term investments of \$28,074,846. Of those financial assets, \$12,887,331 and \$12,162,969 is unavailable for use before June 30, 2023 and 2022, respectively, due to receivables not expected to be received within one year, donor-imposed restrictions as to purpose and use, Board designated funds as an operating reserve, and balances equal to contractual liquidated damages for future ministry events. Therefore, \$39,977,415 and \$35,532,772, of financial assets are available within one year to meet cash needs for general expenditures as of June 30, 2022 and 2021, respectively.

ADF and Affiliates has a Board-established objective to maintain 90 days of specified operating expenses in reserve to ensure the stability and continuance of its mission, programs, employment, and ongoing operations. Management invests cash in excess of estimated near-term requirements in various short-term investments including certificates of deposit and marketable fixed income instruments.

ADF and Affiliates operates with a budget approved by the Governing Board of Directors, and anticipates funding expenditures not covered by donor-restricted resources with current resources without donor restrictions, and resources without donor restrictions carried forward from prior periods.

4. PLEDGES RECEIVABLE:

Pledges receivable consists of:

	June 30,	
	2022	2021
Pledges receivable	\$ 2,750,000	\$ -
Less: present value discount	(120,216)	-
	\$ 2,629,784	\$ -

Pledges receivable is expected to be collected as follows:

Due in less than one year	\$ 1,028,527	\$ -
Due in one to two years	998,167	-
Due in two to three years	603,090	-
	\$ 2,629,784	\$ -

Management has evaluated and believes the pledges are fully collectible; therefore, no allowance for uncollectibility has been recorded as of June 30, 2022.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

5. INVESTMENTS:

Investments consist of:

	June 30,	
	2022	2021
Cash and cash equivalents held for investment purposes	\$ 8,204,321	\$ 4,214,484
Certificates of deposit	2,626,352	5,222,288
Exchange traded funds	14,310,395	9,202,419
Mutual funds	4,502,650	9,435,655
	\$ 29,643,718	\$ 28,074,846

Interest income and gains on investments, netted with management fees, consist of:

	June 30,	
	2022	2021
Dividend and interest income	\$ 666,423	\$ 445,351
Net realized and unrealized gains (losses)	(3,977,692)	3,749,184
	\$ (3,311,269)	\$ 4,194,535

6. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consists of:

	June 30,	
	2022	2021
Land	\$ 2,000,000	\$ 2,000,000
Buildings and improvements	35,546,250	35,482,010
Furniture and equipment	18,189,590	15,187,727
	55,735,840	52,669,737
Less accumulated depreciation	(21,830,904)	(19,315,137)
	33,904,936	33,354,600
Construction in process	470,602	476,402
	\$ 34,375,538	\$ 33,831,002

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

7. NET ASSETS:

Board designated net assets consist of grants and special projects that have been approved but not yet disbursed.

Board designated net assets consist of:

	June 30,	
	2022	2021
Case and project grants	\$ 1,107,971	\$ 1,225,519
Contractual obligations related to future ministry activities	2,455,601	2,015,253
Board designated endowment	105,808	-
	\$ 3,669,380	\$ 3,240,772
 Operating reserve	 \$ 8,808,897	 \$ 8,808,897

Net assets with donor restrictions consist of:

	June 30,	
	2022	2021
Restricted by time or purpose:		
Time restricted	\$ 2,629,784	\$ -
Special projects and grants	1,303,695	424,539
International projects	372,000	313,363
Endowment earnings	-	301,724
	4,305,479	1,039,626
 Restricted in perpetuity:		
Endowment funds	1,691,176	1,661,078
Underwater endowments	(84,244)	-
	1,606,932	1,661,078
	\$ 5,912,411	\$ 2,700,704

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

8. ENDOWMENT FUNDS:

Changes in endowment net assets with donor restrictions for the year ended June 30, 2022, consist of:

	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted by Purpose and Time	Restricted by Perpetuity	
Endowment net assets, beginning of year	\$ -	\$ 301,724	\$ 1,661,078	\$ 1,962,802
Contributions	105,808	-	30,098	135,906
Realized gains		411,475		411,475
Net unrealized gains (losses)	-	(691,666)	-	(691,666)
Amounts appropriated for expenditure	-	(105,777)	-	(105,777)
Endowment net assets, end of year	<u>\$ 105,808</u>	<u>\$ (84,244)</u>	<u>\$ 1,691,176</u>	<u>\$ 1,712,740</u>

Changes in endowment net assets with donor restrictions for the year ended June 30, 2021, consist of:

	Without Donor Restrictions	With Donor Restrictions		Total
		Restricted by Purpose and Time	Restricted by Perpetuity	
Endowment net assets, beginning of year	\$ -	\$ (78,393)	\$ 1,487,920	\$ 1,409,527
Contributions	-		133,158	133,158
Transferred from with donor restrictions by purpose*	-		40,000	40,000
Net unrealized gains	-	483,208	-	483,208
Amounts appropriated for expenditure	-	(103,091)	-	(103,091)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 301,724</u>	<u>\$ 1,661,078</u>	<u>\$ 1,962,802</u>

*During the year ended June 30, 2021, donors of funds contributed in previous years requested ADF and Affiliates to transfer these funds from net assets with donor restrictions by time or purpose to net assets restricted in perpetuity.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

8. ENDOWMENT FUNDS, continued:

During the year ended June 30, 2022, the fair value of endowment funds fell below the original gift value as follows:

Original gift value	\$ 1,365,055
Current fair value	<u>1,189,715</u>
Underwater amount	<u><u>\$ (175,340)</u></u>

9. FAIR VALUE MEASUREMENTS:

ADF and Affiliates uses appropriate valuation techniques to determine fair value based on inputs available. When available, ADF and Affiliates measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Fair values of assets measured on a recurring basis at June 30, 2022 are:

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2022				
Investments subject to fair value:				
Mutual funds	\$ 4,502,650	\$ 4,502,650	\$ -	\$ -
Exchange traded funds	14,310,395	14,310,395	-	-
	18,813,045	<u>\$ 18,813,045</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciling items:				
Cash and cash equivalents	8,204,321			
Certificates of deposit	2,626,352			
Total investments	<u>\$ 29,643,718</u>			

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

9. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2021 are:

		Fair Value Measurements Using:		
June 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments subject to fair value:				
Mutual funds	\$ 9,435,655	\$ 9,435,655	\$ -	\$ -
Exchange traded funds	9,202,419	9,202,419	-	-
	18,638,074			
		\$ 18,638,074	\$ -	\$ -
Reconciling items:				
Cash and cash equivalents	4,214,484			
Certificates of deposit	5,222,288			
Total investments	\$ 28,074,846			

10. NOTE PAYABLE:

As of June 30, 2021 there was a note payable with an initial balance of \$13,125,000 secured by property and equipment. This note required expected monthly payments of \$81,300 beginning October 1, 2021, and had a variable interest rate of 1.350 percentage points over the 1 Month LIBOR Interest Rate. Interest-only payments were made through September 2021, and the effective interest rate as of June 30, 2021 was 1.45%. During the year ended June 30, 2022, ADF and Affiliates paid off the note payable in full.

11. RETIREMENT PLAN:

ADF and Affiliates participate in a defined contribution pension plan under Section 401(k) of the Code. All employees age 21 and over who have also worked three months are eligible to participate by making voluntary contributions between 1% and 90% of their gross wages, up to \$20,500. ADF and Affiliates matches employee contributions up to 4%. Employer contributions to the plan were \$999,562 and \$799,028, for the years ended June 30, 2022 and 2021, respectively.

12. ALLOCATION OF JOINT COSTS:

For the years ended June 30, 2022 and 2021, ADF and Affiliates incurred joint costs of \$4,618,270 and \$3,581,605, respectively, for informational materials and activities that include fundraising appeals. During the year ended June 30, 2022, \$802,756 of those costs were allocated to fundraising, \$322,390 to general and administrative, and \$3,493,124 to program services. During the year ended June 30, 2021, \$644,689 of those costs were allocated to fundraising, \$250,712 to general and administrative, and \$2,686,204 to program services.

ALLIANCE DEFENDING FREEDOM AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

13. EQUIPMENT LEASES:

ADF and Affiliates lease office equipment under noncancellable operating leases. Lease expenses under these agreements for the years ended June 30, 2022 and 2021, were \$152,014 and \$237,593, respectively. Future minimum lease payments are:

<u>Year Ending June 30,</u>	
2023	\$ 203,248
2024	198,559
2025	153,420
2026	<u>97,942</u>
	<u>\$ 653,169</u>

14. OFFICE SPACE LEASES:

ADF and Affiliates lease office space under long-term operating leases, which require various total monthly payments. Lease expense under these agreements for the years ended June 30, 2022 and 2021, were \$1,641,195 and \$1,645,052, respectively. Future minimum lease payments are:

<u>Year Ending June 30,</u>	
2023	\$ 1,711,526
2024	1,623,854
2025	1,613,378
2026	1,367,512
2027	971,376
Thereafter	<u>182,055</u>
	<u>\$ 7,469,701</u>

15. COMMITMENTS:

ADF and Affiliates have contracts with various hotels and conference centers for special events to be held in the following years. ADF would be liable for \$2,455,601 and \$2,015,253, as of June 30, 2022 and 2021, respectively, related to these contracts in the event of cancellation.

16. CONCENTRATION:

During the years ended June 30, 2022 and 2021, ADF and Affiliates received contributions from one donor that totaled approximately \$12,696,000 and \$18,445,000, respectively. These gifts accounted for approximately 12% and 22%, respectively, of total support and revenue for the years ended June 30, 2022 and 2021.

17. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through October 27, 2022, which represents the date the consolidated financial statements were available to be issued.